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IN REPLY
REFER TO AQOE

NOV - 8 1996

**MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT
DISTRICTS**

**SUBJECT: DCMC Memorandum No. 96-75 , FY 97 Contract Property Management Strategies
(POLICY)**

This is a POLICY memorandum effective immediately and ending September 30, 1997.
Target audience: Contract Administration Office Commanders, Property Administrators, Plant
Clearance Officers, and Administrative Contracting Officers.

Recent reviews of the contract property management process have disclosed significant problems that appear to be systemic in nature. DoD Inspector General audits, DCMC Assessment Center Internal Operations Assessments, and the recently completed Special Property Management Review at 20 selected contractors have all disclosed weaknesses in contract property management. Common problems include: unauthorized or improper acquisition of property by contractors as direct charges to Government contracts; poor record-keeping and misclassification of property; lack of contractor internal screening to identify excess; lack of timely reporting of excess; and failure both by contractors and ourselves to identify and correct problems in contractor management of Government property in a timely manner.

As a result of these problems, I have identified contract property management as an area of concern to the Command in the FY 96 Annual Statement of Assurance and as an area of management focus for FY 97. I am committed to improving this process, and require the full attention of all DCMC Commanders to ensure we aggressively resolve our problems in this area.

Our primary goals in property management are: influencing our customers to provide less property; the prompt identification and reporting by contractors of property no longer needed for contract performance; and the overall improvement in the management of Government property that is needed for contract performance. We will address the reduction of property through discussions with our customers in the Early CAS process and other customer forums. We can also influence the reduction of property by ensuring that Property Administrators thoroughly review the acquisition function during performance of property control system analyses, and aggressively challenge unauthorized or improper acquisitions. We can also contribute to the reduction in property by performing more proactive utilization reviews to ensure contractors internally screen property to identify unneeded assets and promptly report excess property. I believe that an overall improvement in property management can be achieved by ensuring that systemic deficiencies in contractors' property control systems are promptly corrected and by

moving towards more of a risk-based approach to surveillance. If systemic deficiencies are not corrected in a timely manner, Commanders should take appropriate measures, including withdrawal of property system approval (in accordance with DCMC and DoD Government property regulations). Conversely, if contractors prove over time to be reliable property managers, surveillance should surely be reduced.

For the remainder of FY 97 we must focus our energies on those property management areas that pose the greatest risk to our customers. Based on the results of the recent reviews and on our own historical experience, the higher risk functions that we will concentrate on in FY 97 are Property Management, Acquisition, Records, Utilization/Disposition, and Subcontract Control, as identified in DoD 4161.2-M, DoD Manual for the Performance of Contract Property Administration. Review of these functions should not be waived in FY 97 (unless the results of the recently completed Special Review warrant waiver, as addressed below). In performing these analyses, Property Administrators should give careful consideration as to whether statistical, judgement, or purposive sampling should be employed, depending on the types of transactions being reviewed and the contractor's past performance.

For the remaining property management functions and functional segments, we need to take advantage of existing risk-based DoD policies. If a contractor has been rated satisfactory for an extended period of time or has no recent history of major discrepancies for these property functions, Property Administrators are strongly encouraged to waive annual review of the property function (e.g., receiving, movement), unless they were waived in FY 96. This does not mean that less time should be devoted to property management. Instead, I expect to see more thorough, comprehensive analyses done of the higher-risk functions.


This policy is not intended to supplant existing risk-based property management initiatives. If a contractor is participating in contractor self-oversight experiments, PROCAS agreements, joint property audits, or other related initiatives, Commanders should continue to pursue these programs, provided that both they and their Property Administrators are convinced that the oversight strategies they are employing are compliant with DCMC, DoD, and Federal property management policies and meet the objectives of this policy letter. All requests for deviations from those policies still must be approved by this Headquarters.

For those contractors who were reviewed under the recent "Special Property Management Review at 20 Selected Contractors," the results of those reviews should be used to augment the FY 97 analyses. If major discrepancies were found, the contractor must be formally notified and must submit a corrective action plan. Monitoring the corrective action plan should be in accordance with the timeframes established by DCMC policy, with no extensions granted unless a waiver has been approved by this Headquarters. However, these contractors should not receive a formal unsatisfactory rating solely as the result of the special review. The focus should be on monitoring corrective actions and on reanalysis, after which the appropriate rating should be assigned. If no major problems were disclosed as a result of the special review, Property

Administrators should give serious consideration to waiving the functional segments that were reviewed.

This Command must make a major improvement in performance of the property management process. In addition to ensuring contractors are meeting their contractual requirements relative to property management and adopting more of a risk-based philosophy, we will be streamlining and improving property management policies, undertaking a major hands-on training program for our personnel and assessing the adequacy of the current deployment of resources. I expect each Commander to take a personal interest in improving the property management process and to stay fully apprised of all major property management issues under their cognizance.

Please direct any questions you may have to Paul Farley, Property, Closeout, and Terminations Team (AQOE), on DSN 427-2443 or (703)767-2443, internet address: paul_farley@hq.dla.mil.



ROBERT W. DREWES
Major General, USAF
Commander

Attachment

FY 97 DCMC CONTRACT PROPERTY MANAGEMENT STRATEGIES

FUNCTION*

NOTES**

Property Management

Property Administrator (Pas) must ensure that contractors have acceptable processes for assessing the property control system's efficiency and effectiveness, identifying deficiencies, instituting corrective actions or general improvements, and minimizing loss, damage, or destruction to Government property.

PAs should ensure that property control processes/procedures have been disseminated to contractor personnel responsible for managing Government property, and are being followed.

Property control procedures/processes are current, with changes submitted to the PA for review prior to implementation.

Acquisition

PAs must ensure that facilities (e.g., general purpose equipment) and Special Test Equipment (STE) are not being acquired without proper authorization (see FAR 52.244-2, 52.245-18, 45.302).

Samples must be derived from purchase orders and not contractor records.

PAs must ensure that classification of property is correct and not misclassified in order to circumvent the necessary FAR approvals for acquiring facilities and STE.

Special attention must be given to ensuring that computers being acquired as STE are not being used for other purposes.

If contractors who have been subject to limited analyses are acquiring significant amounts of equipment under cost type contracts, PAs should consider performing standard analyses, at least for the acquisition function.

Unauthorized acquisitions must be brought to the attention of the ACO for possible cost disallowance.

Since DCMDI administers very few cost contracts, special focus does not have to be given to the Acquisition function. However, DCMDI PAs should review their contractor assignments with an

Acquisition (Continuation) eye toward focusing surveillance on those functions they consider being of highest risk.

Records Government property acquired under cost reimbursement contracts or furnished by the Government must be properly posted to the property records within a reasonable time.

Floor-to-records reviews as well as records-to-floor reviews are necessary to ensure property has been properly recorded.

Receipt and issue records must be maintained as authorized by the PA.

PAs must ensure that when reviewing records (in addition to other functions), the population encompasses the maximum number of items possible within a functional segment that have common characteristics.

Utilization/Disposition Identification of excess and disclosure of excess functional segments must be closely reviewed to ensure regular internal screening takes place and excesses are promptly identified and report.

Retention decisions must be based on firm requirements.

Once property is identified as excess, it must be promptly reported to the plant clearance officer (unless other disposition instructions that are consistent with FAR provisions are included in the contract).

Subcontractor Control The prime contractor must be adequately assessing the control of property in possession of subcontractors, including records, reports, inventories, and disposition (unless supporting property administration has been obtained).

* Functions as identified in Appendix A to DoD 4161.2-M, DoD Manual for the Performance of Contract Property Administration

** In addition to the other requirements of DoD 4161.2-M and DCMC policies, Property Administrators must ensure that these areas are thoroughly addressed during analyses.